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**CENTRAL INTELLIGENCE AGENCY
DIRECTORATE OF INTELLIGENCE**

Office of Research and Reports

**MEMORANDUM: The Impact of the "Cultural Revolution" on the Economy
of Communist China**

1. Judgments on the economic impact of the "cultural revolution" in China must necessarily be tentative at this time. First, the "cultural revolution" is only beginning to run its course in the economic sphere. Until mid-December, the regime was fairly successful in insulating the economy from its effects. Only in mid-December did the regime give the signal for the spread of the movement into economic enterprises. Second, although there is a large volume of reporting from many sources, the reporting is fragmentary, extremely difficult to confirm, and unsuited for quantitative analysis or over-all judgments. Nevertheless, some debilitating effects upon economic activity are already apparent and there are indications of yet others to follow. If the regime allows these trends to continue, the consequences for the Chinese economy may be greater than in the "time of troubles" of 1960-61, which followed the Great Leap Forward.

2. The initial economic effects of the "cultural revolution" have been concentrated in nonagricultural sectors -- industry, transportation, communications, and, to a lesser extent, science and technology and foreign trade.*

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3. There have been a large number of stoppages of production in individual plants in most of the industrial areas of China. As far as we know, they have been of short duration and have not significantly affected the total production of any one industry. Similarly, there

* See Appendix for examples of these problems.

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have been disruptions in the operations of the port of Shanghai



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4. Scientific and technological work and foreign trade have also been affected. Most of the technical schools attached to various industrial ministries appear to have shut-down in response to the mid-1966 order closing down middle and higher educational institutions. There have also been several instances of personnel in industrial research being forced to devote more time to the "revolution" and less to their customary tasks. In foreign trade, at least some Chinese officials have been reluctant to conclude contracts with Free World producers of industrial equipment, e.g., steel-finishing equipment from West Germany.

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5. It is highly likely that worker productivity in nonagricultural fields is being affected by the constant turmoil which exists in all major Chinese cities and the regime's stated aim of replacing material incentives with revolutionary fervor. Aside from the general wage increase of 1956 and the selective increases of 1963, the regime has held the line on wages. Pressures for change have developed over the years and conflict with the regime's long-standing position that wage differentials must be narrowed rather than widened. The regime maintains that demands for increased wages are stimulated by "revisionist" management. The Chinese worker's desire for higher wages is, however, genuine and, although evidence is lacking, almost certainly affects worker productivity.

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6. The main source of authority in the economic life of Communist China has always been the Chinese Communist Party. A prominent feature of the "cultural revolution" has been the attacks at every level against party officials who oversee economic activity. Some top economic planning officials may have been purged, as well as numerous others at lower levels. The regime's views on what authority will eventually replace that of the CCP in economic matters, or on how the authority of the CCP will be restored, are not clear at this point. In the meantime, rational management is lacking and labor discipline has become difficult to enforce.

7. Even if the regime attempts to cut its losses by halting the "cultural revolution" now -- and there are few signs that it will -- economic performance in 1967 will be affected by what has occurred so far. Prospects in the nonagricultural sector are not promising. If present trends continue, even high priority military industries may suffer. Should the "revolution" be extended into the agricultural sector, food shortages are likely to result. When the schools reopen, admission standards and curricula are to be drastically changed along more "revolutionary" lines. The long-term effect of these changes cannot be measured, but they can only be detrimental to the economic development of Communist China.

8. Disturbances in the economy to date have been relatively isolated in their effect and have not been mutually reinforcing. With the passage of time, however, [^]this result [^]becomes more likely. _{FEEDBACK AND INTERACTION}

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